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Eurasia Group publishes Top Risks for 2012

"The End of the 9/11 Era" – conflation of global politics and markets is #1

NEW YORK, 3 JANUARY -- Eurasia Group President Ian Bremmer and Head of Research David Gordon are pleased to announce the firm's annual Top Risks report. Top Risks identifies the upcoming year's key geopolitical areas to watch for global investors and market participants. According to the report, the greatest risk in 2012 is "The End of the 9/11 Era."

Bremmer and Gordon describe this as "a shift toward an order in which politics is driving the global economy while economics are driving geopolitics. Against a volatile g-zero backdrop, where global leadership is in short supply, that's the biggest global risk of 2012."

The following is a summary of Eurasia Group's Top Risks for 2012. Please visit eurasiagroup.net for the complete report.

1 – The End of the 9/11 Era -- It was a truism of globalization—economics drive the markets. National security drives geopolitics. No longer. Following the 2008 financial crisis, the killing of Osama bin Laden, the withdrawal of US troops from Iraq, and an end date for the war in Afghanistan, we have a new model where politics and economics overlap almost entirely. Policymakers are now most concerned with spiraling deficits, the eurozone crisis, and economic relations with China. Meanwhile for markets, as poor leadership in virtually all of the major geopolitical players leads to stalemate and uncertainty, investor sentiment will trend toward risk aversion.

2 - G-Zero and the Middle East -- The inability/unwillingness of major powers to take on new risks and burdens to help manage the various hotspots will mean greater turbulence in this region as it grapples with unresolved religious, sectarian, and ethnic tensions; the continuing absence of a viable regional security framework; and continuing protests, old autocracies at risk and enormous challenges facing newly "democratic" regimes. As this plays out in Syria, Egypt, Iraq, Libya, Yemen and Bahrain, regional actors – Saudi Arabia, Iran, Turkey and Israel – will complicate matters as they vie for proxy influence.

3 - Eurozone: muddle through -- The biggest risk for Europe in 2012 is not Eurozone fragmentation (Greece plus peripheral exit) or disintegration (Italian plus Spanish exit); but continued "reactive incrementalism." It may be boring; it may not be sexy; but it's the reality. The uncertainty and volatility that has characterized the investment and broader economic environment in 2011 will continue well into 2012 with significant downsides.

4 - United States: right after elections -- \$5 trillion worth of tax and savings decisions must be made a handful of weeks after what is shaping up to be a very tight election. Firms and investors will need to deal with uncertainty both about their own taxes and government contracts as well as about impacts of these policies on economic growth through the course of the year.

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5 - North Korea -- More than ever, uncertainty abounds with this nuclear power that is undergoing a leadership transition to an heir with little preparation, while outsiders have almost no ability to evaluate what's really happening inside the country.

6 - Pakistan -- Domestic extremism, faltering relations with the US, concerns about India's intentions in the region all against the backdrop of a struggling economy mean Pakistan will face severe challenges in 2012.

7 - China -- The recently increased US security presence in Asia may embolden China's neighbors to take on more assertive policy positions with China. There is already high risk that Beijing will produce unpleasant foreign policy surprises this year, given rising nationalism in the country, its ongoing political transition, and the leadership's unwillingness, and perhaps inability, to resolve internal debates about China's role in the world. Beijing will therefore be more apt to meet provocation with provocation in the months to come, using both its naval and its economic power.

8 - Egypt: a transition in trouble -- Egypt faces the possibility of political disintegration this year, as anger builds between military and civilian political forces, both Islamist and secular. That outcome would be bad for Egypt's base-line stability, its economic recovery, and its broader regional role.

9 - South Africa: populism ascendant -- A bitter struggle for leadership of the ruling African National Congress will stand in the way of economic growth—at a time when the eurozone crisis already weighs heavily on South Africa's trade and its currency.

10 - Venezuela: a no-win election -- The big political story this year is the 7 October presidential election, which incumbent Hugo Chavez is likely to narrowly win. The outlook for economic policy and political stability is bad no matter who wins, and in fact worse if the opposition prevails, and most severe should Chavez die or abandon the race.

In addition to Top Risks, Bremmer and Gordon identify four **Red Herrings**, issues that despite the headlines, Eurasia Group believes will not be sources of geopolitical instability in 2012.

2012 political transitions -- In addition to elections this year in Mexico, Venezuela, Kenya, Taiwan and (maybe) Egypt, 2012 will see political transitions in the US, China, Russia, and France, countries that together represent about nearly half of global GDP and four-fifths of the UN security council. Yet there is surprising little at stake here for geopolitics and the global economy. Whatever risks come with these outcomes will arrive in 2013 or beyond.

Eurozone breakup -- probably the single most overrated risk of 2012, the political will to maintain the eurozone remains strong among all the major political parties in the core eurozone states, almost across the board in the European periphery, and among eurocrats in the ever-growing European bureaucracy. Further, there is no effective political mechanism for a eurozone breakup.

China's hard landing -- There are signs of overheated growth in China, but there's no chance that the government will fail to pull out every stop to prevent a meltdown—or even a serious bump—especially in the middle of a major political transition.

Mayan apocalypse -- Just isn't happening. And if it does, well, sorry.

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Eurasia Group is the world's leading global political risk research and consulting firm. By providing information and insight on how political developments move markets, we help clients anticipate and respond to instability and opportunities everywhere they do business. Founded in 1998, the firm's name reveals its early focus on the Soviet Union and Eastern Europe, but today our research platform is global. Our analysts monitor political, economic, social, and security developments in Africa, Asia, Eurasia, Europe, Latin America, the Middle East, and North America. Headquartered in New York, we have offices in Washington, DC, and London, as well as on-the-ground experts and resources in more than a hundred countries. Our analysts are highly trained political scientists with extensive experience in the public and private sectors.

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